Regional Debt Conference

“Addressing Debt Sustainability in the Pacific in the Aftermath of COVID-19”

5 – 8 April 2022
Virtual meeting

Concept Note

Mandate

1. In July 2021, the Pacific Island Forum Economic Ministers Meeting (FEMM) endorsed the convening of a Regional Debt Conference between the Pacific Small Island Developing States (PSIDS) and PSIDS Creditors to discuss and explore options for debt relief. The FEMM has mandated the COVID-19 Economic Recovery Taskforce to implement this mandate, in collaboration with development partners.

2. The Conference is set against the backdrop of recent Debt Sustainability Assessments of the IMF, which placed a number of PSIDS at a high level of debt distress due to the impact of COVID-19 on revenue contraction, elevated fiscal deficits, and increased pressure on borrowing capacity constraints as well as the risk that climate-related events can exacerbate the current debt crisis.

3. The FEMM also noted that while some PSIDS benefitted from the G20 Debt Service Suspension Initiative and the IMF Catastrophe Containment and Relief Trust, the need to explore other options and strategies in addressing PSIDS debts, including debt for climate swaps was highlighted.

4. The Conference is co-convened by Fiji, the Chair of the Pacific Islands Forum, and Tuvalu, the Chair of the FEMM, and co-hosted by the Pacific Islands Forum Secretariat and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

5. The outcomes of the Conference will be tabled at the 2022 FEMM. The Conference will be preceded by a regional Symposium on Public Financial Management, and followed by a Debt Management Workshop, which will provide additional inputs to the 2022 FEMM.

Background

6. The debt and fiscal sustainability challenges of PSIDS have been exacerbated by the COVID-19 pandemic, severely reducing government revenues to finance increased government expenditures. This has increased fiscal deficits and led to increased debt stress for most PSIDS, significantly constraining fiscal space and resulting in the need to de-risk government balance sheets and explore options for debt relief or debt restructuring, to lighten the debt service burden and allow headroom to finance post COVID-19 economic recovery. The COVID-19 crisis in PSIDS can quickly escalate to a debt crisis if left unchecked; hence, the Conference aim to host ‘talanoa’ sessions between debtors, creditors, and important stakeholders is very timely.
7. Debt and disaster and climate risks are intimately related in the PSIDS as countries are highly exposed and vulnerable to climate-change induced disasters, ranging from rapid-onset disasters such as tropical cyclones and slow-onset disasters such as sea level rise, the cost of which can represent a large proportion of the GDP and significantly raise public debts. As such the vulnerability of the PSIDS to natural disasters is a serious impediment to the attainment of the Sustainable Development Goals, making the strengthening of climate and disaster resilience an urgent priority for the PSIDS.

8. The PSIDS also continue to face significant challenges in accessing climate financing resources to implement climate change adaptation and mitigation projects, as recognized in the 2014 Small Island Developing States Accelerated Modalities of Action or SAMOA Pathway. This is partly due to complex procedures required by multilateral climate funds along with limited capacities, weak national systems and small economic bases of PSIDS. Enhancing access to climate finance is of critical importance and can be further improved by strengthening fiscal and debt management and public financial accountability in the PSIDS, as fiscal risk reducing measures to create fiscal space for investment in climate as well as the COVID-19 recovery. Continued dialogue with climate funds on PSIDS access mechanisms is equally vital.

9. The Conference will also provide an opportunity to bring forward some of the recommendations of COP26 that are of critical importance to the PSIDS, particularly in the areas of adaptation financing and loss and damage. While there was strong agreement at COP26 on the need to scale up financing to meet the needs of the most vulnerable states to the adverse impacts of climate change, adaptation financing, which is critical for the PSIDS, remains inadequate. Furthermore, while COP26 endorsed the establishment of a dialogue mechanism with development partners for implementing approaches to address loss and damage, it is important for the PSIDS that there should be no trade-off between debt funding for immediate climate-induced development and essential development, before that dialogue is set in motion.

**Objectives and Expected Outcomes**

10. The objective of the Conference as endorsed by FEMM is to provide a forum for debtors and creditors to discuss and explore sustainable regional and national options and strategies to address the debt stress vulnerabilities of the PSIDS associated to both the COVID-19 pandemic and to climate risks.

11. To improve the Pacific’s resilience to extreme fiscal and climate shocks, the Conference aims to discuss innovative financing solutions and options, ranging from domestic financing toolkits, debt restructuring, debt and fiscal policy review, counter-cyclical and fiscal buffer funding approaches, climate and disaster financing mechanisms, and the Pacific Resilience Facility (PRF).

12. The Conference also aims to highlight the critical linkages between fiscal and debt relief, fiscal governance and effectiveness, and innovative financing, needed to create fiscal space for PSIDS for sustainable economic recovery from the COVID-19 pandemic and accelerate investments in climate resilience and the Sustainable Development Goals.

13. The expected outcome of the Conference will be a Declaration specifying commitments and actions to be taken by debtors, creditors, and development partners both at the country, bilateral, and regional levels, aimed to mitigate debt and climate risks and enable a sustained socio-economic recovery from the COVID-19 pandemic.

**Key Questions**

1. What are the fiscal, debt, and financing challenges faced by the PSIDS to recover from the COVID-19 pandemic, what policy measures have been implemented to create fiscal space and restructure public debts, and what additional measures need to be implemented to strengthen fiscal governance and effectiveness?
2. What are the debtors and creditors perspectives and insights on fiscal, debt, and climate vulnerability risks, including loss and damage caused by natural disasters, faced by PSIDS and what measures should be implemented to reduce such risks?

3. What is the potential of innovative financial instruments and mechanisms such as the Pacific Resilience Facility, debt for climate swaps and contingent disaster financing to strengthen financial resilience to climate-related risks going forward?

4. What additional solutions are available to address the collective development financing risks faced by PSIDS, and what role can the provision of concessional finance based on a multidimensional vulnerability index play in this regard?

Participants

The Regional Debt Conference will be attended by:

- Officials from relevant Government ministries, particularly the ministries of finance, planning and climate and disaster finance, and other public institutions that oversee national planning, finance, debt management, aid coordination, and execution of debt arrangements from the PSIDS: Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu, New Caledonia and French Polynesia.
- All the PSIDS’ bilateral and multilateral creditors.
- Targeted donor and development partners, private sector and civil society organisations.

Tentative Programme

The tentative programme for the Regional Debt Conference is attached in the Annex.